THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY AND EXHIBITS

OF

LEIGH C. FORD

OCTOBER 26, 2012

DOCKET NO. 2012-218-E

Application of South Carolina Electric & Gas Company for Increases and Adjustments in Electric Rate Schedules and Tariffs and Request for Mid-Period Reduction in Base Rates for Fuel

DIRECT TESTIMONY OF LEIGH C. FORD

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2012-218-E

IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY FOR INCREASES AND ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND TARIFFS AND REQUEST FOR MID-PERIOD REDUCTION IN BASE RATES FOR FUEL

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Leigh Ford. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Electric Utilities Specialist in the Electric Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I earned a Bachelor of Arts degree from Lenoir-Rhyne University in 2002. Prior to my employment with ORS, I was a Field Service Representative with the South Carolina Budget and Control Board. In 2007, I joined ORS as an Electric Utilities Specialist and was promoted to Senior Electric Utilities Specialist in 2010. I have previously testified before the Public Service Commission of South Carolina ("Commission") in fuel and general rate proceedings. I also presented an allowable ex-parte briefing regarding renewable resources and their role in South Carolina's electric generation portfolio.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to summarize the Electric Department's examination of certain accounting and pro forma adjustments in South Carolina Electric & Gas Company's ("Company" or "SCE&G") Application for adjustments in its electric rate schedules and tariffs and request for mid-period reduction in base rates for fuel.

Q. PLEASE EXPLAIN THE ADJUSTMENTS ADDRESSED IN YOUR TESTIMONY.

A. My testimony addresses the Company's proposed adjustments pertaining to Wages, Benefits and Payroll Taxes; Environmental Remediation Recovery; the Wateree Scrubber Deferral Amortization; Wateree Scrubber Current Expense; Pension Deferral Amortization; Pension Current Expense; Amortization of the $25 million Weather Credit and EIZ Tax Credit; Storm Reserve Fund; and Transmission and Distribution ("T&D") Insurance Premiums. My testimony will also address ORS's adjustment related to Tree Trimming.

These adjustments, more fully discussed below, were provided by the ORS Electric Department to the ORS Audit Department and can be seen in Audit Exhibit HNW-2 of ORS Audit witness Henry Webster.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO WAGES, BENEFITS AND PAYROLL TAXES.

A. The Company's Adjustment #1 adjusts wages, benefits and payroll taxes to current levels for the year ending December 31, 2011 ("Test Year"). The effect of this adjustment is to increase total Operations and Maintenance ("O&M") expenses by $10,181,230 and other taxes (payroll taxes) by $722,374 for the Test Year. ORS proposes to eliminate officer salary increases, which decreases the total O&M adjustment expenses to $9,407,736 and other taxes to $667,494. This is reflected in ORS Audit witness Webster's Adjustments #5 and #35.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO ENVIRONMENTAL REMEDIATION RECOVERY.

A. In the Company's Adjustment #12, SCE&G proposes establishing a mechanism by which it recovers environmental remediation costs and requests that it be allowed to defer and amortize the costs associated with environmental clean-up activities. In its request to increase total Test Year O&M expense by $240,000 to account for the deferral and amortization of potential environmental clean-up costs, the Company states that clean up will be needed for capacitors that may be buried at two sites and for arsenic which has been detected in the soil at several SCE&G substations. ORS agrees with the Company's adjustment but recommends that SCE&G establish an Environmental Remediation Reserve Fund ("Reserve Fund") that will be similar to the Storm Damage Reserve Fund and that the requested $240,000 be placed in the Reserve Fund annually to be used to offset these remediation activities. The Reserve Fund can be used to track this deferred debit/liability. The inclusion of this adjustment is reflected in ORS Audit witness Webster's Adjustment #11.

Q. PLEASE ADDRESS THE ADJUSTMENT PERTAINING TO WATEREE SCRUBBER DEFERRAL – AMORTIZATION.

A. In Order No. 2008-741, the Company was granted an Accounting Order to delay commencement of depreciation and to defer the incremental O&M expenses associated with the pollution control facility ("Scrubber") at its Wateree Generating Station ("Wateree"). The Company was also granted an Accounting Order, Order No. 2010-828, to defer the depreciation expense incurred from the operation of the Wateree Scrubber.

SCE&G's Adjustment #17 proposes amortizing the deferred balance of the O&M and depreciation associated with the Wateree Scrubber Deferral over five years. In its adjustment, the Company calculated the deferred balance at March 2012 and estimated the balance at August 2012 producing a total estimated balance of $24,592,802. SCE&G requests to amortize this balance over five years, resulting in an annual amortization amount of $4,918,560.

ORS calculated the actual deferred balance at August 2012 to be $24,424,631. ORS proposes amortizing this balance over 23 years, which is the remaining life of Wateree. This results in an annual amortization expense of $1,061,940, which is a reduction of $3,856,620 in the annual amortization expense proposed by SCE&G. This adjustment is reflected in ORS Audit witness Webster's Adjustment #31.

Q. PLEASE ADDRESS THE ADJUSTMENT PERTAINING TO WATEREE SCRUBBER – CURRENT EXPENSE.

A. The Wateree Scrubber began commercial operation on October 12, 2010, which was subsequent to the Company's rate request in Docket No. 2009-489-E. Therefore, this asset was not approved in Order No. 2010-471 to be recorded in plant in service, and base rates did not include the associated O&M or depreciation expense. Company Adjustment #18 increases the annual O&M expense by $939,209 and the annual depreciation expense by $12,045,600 to account for the current expenses associated with the Wateree Scrubber. Adjustment #18 also adjusts Accumulated Depreciation by $12,045,600. ORS agrees with the Company's adjustment but calculated O&M expenses using a 24-month average and annualized the depreciation expense and accumulated depreciation. This results in an annual O&M expense of $797,714 and an annual depreciation expense of $12,047,049, which is a decrease of approximately $140,000. Accumulated depreciation was adjusted to $12,047,049. These adjustments are also discussed by ORS Audit witness Major and reflected in ORS Audit witness Webster's Adjustments #14, #32 and #55.

Q. PLEASE ADDRESS THE ADJUSTMENT PERTAINING TO PENSION DEFERRAL – AMORTIZATION.

A. Order No. 2009-81 authorized the Company to defer, as a regulatory asset, pension expenses incurred due to a decline in the value of the Company's Pension Plan assets. This decline, which has been directly attributed to the economic downturn, resulted in a loss of pension income, thereby increasing the Company's expenses. The Company has been deferring these additional expenses since early 2009.

In its Adjustment #20, the Company calculated the pension deferral balance at March 2012 and estimated the balance at August 2012 for a total estimated balance of $58,386,767. SCE&G requests to amortize this balance over twelve years, resulting in an annual amortization amount of $4,865,564.

ORS calculated the pension deferral balance to be $59,635,016 at September 2012 and recommends amortizing this balance over 30 years rather than 12 years, as proposed by SCE&G. This results in an annual amortization expense of $1,987,834, which is a reduction of $2,877,730 in the requested annual amortization expense. This adjustment is reflected in ORS Audit witness Webster's Adjustment #15.

Q. PLEASE ADDRESS THE ADJUSTMENT PERTAINING TO PENSION – CURRENT EXPENSE.

A. As previously addressed in my testimony, the Company's Pension Plan – which had historically generated income used to offset expenses – began incurring expenses due to the economic downturn. SCE&G has been deferring these additional expenses since 2009 and proposes including these expenses in base rates. Company Adjustment #21 increases Test Year expenses by $12,525,444 to account for additional annual pension expense expected to be incurred in the future.

Q. DOES ORS HAVE A RECOMMENDATION AS TO THE COMPANY'S PROPOSED TREATMENT OF PENSION EXPENSES?

A. Yes. ORS recognizes that the decline in the value of the Company's Pension Plan has resulted in additional expenses but does not recommend increasing base rates to account for these additional expenses. Instead, ORS proposes to allow the Company recovery of these additional pension expenses via a rate rider. The Company attributed the increased expenses to the decline in the economy and a rider would allow flexibility in recognizing changes in the market. ORS recommends that this rate rider be subject to an annual true-up.

ORS calculated the pension expense using a 12-month average ending September 2012, which results in an annual pension expense of $11,443,665. This is a decrease of $1,081,779 from the Company's proposal. This adjustment is reflected in ORS Audit witness Webster's Adjustment #16 and the calculation of the pension rate rider is reflected in ORS Electric witness Michael Seaman-Huynh's Exhibit MSH-1.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO AMORTIZE THE $25 MILLION WEATHER REFUND OVERAGE AND THE EIZ TAX CREDIT OVERAGE.

A. Company Adjustment #25 proposes decreasing Test Year revenues by $2 million to amortize the amount SCE&G over-credited customers for the $25 million Weather Refund and the EIZ Tax Credit refund. In its adjustment, SCE&G estimates that it will have over-credited customers $4 million for these two refunds and proposes amortizing this amount over two years. ORS verified that SCE&G over-credited customers approximately $3 million rather than SCE&G's estimated $4 million. ORS recommends removing this adjustment and allowing the Company to recover this over-credit during its annual fuel proceeding. This will allow the Company full recovery of the amount and protect rate payers from a potential over or under-credit in the future. The removal of this adjustment is reflected in ORS Audit witness Webster's Adjustments #3 and #41.

Q. PLEASE EXPLAIN SCE&G'S ADJUSTMENT TO THE STORM RESERVE FUND.

A. In Order No. 2010-471, the Commission suspended the collection of the Storm Damage Rider and SCE&G currently proposes reinstating this Rider. Company Adjustment #27 increases Test Year expenses by $6,054,246 to reinstate contributions to the Storm Reserve Fund. ORS does not recommend reinstating contributions to the Storm Reserve Fund at this point.

Q. PLEASE PROVIDE A HISTORY OF THE STORM RESERVE FUND.

A. In Docket No. 1995-1000-E, the Company proposed a Storm Reserve Fund which would help offset the potential financial impact of a major hurricane or other catastrophic weather occurrence to the Company's T&D assets. This reserve can be applied to offset incremental storm damage restoration costs in excess of $2.5 million in a calendar year. The fund was originally capped at $50 million but was increased to $100 million in Order No. 2007-680. Customer contributions to the fund were suspended in 2010 and as of July 2012, the reserve had a balance of more than $30 million.

In the past few years, the fund has been used to not only pay for storm restoration costs, but also for tree trimming and storm insurance premiums. Exhibit LCF-1 details the amounts contributed to and withdrawn from the Storm Reserve Fund since its inception in 1996.

Q. PLEASE EXPLAIN WHY ORS DOES NOT RECOMMEND REINSTATING CONTRIBUTIONS TO THE STORM RESERVE FUND.

A. ORS does not recommend reinstating customer contributions to the Storm Reserve Fund at this time due to the current balance and historically low storm restoration costs drawn from the reserve. The current Storm Reserve Fund balance is approximately $30 million and, as shown on Exhibit LCF-1, the Company has historically withdrawn an average of approximately $1.2 million a year in storm restoration costs. The historical withdrawal of storm restoration costs – for which this reserve was established – illustrates that such withdrawals have had minimal impact on the reserve balance. Additionally, the withdrawals of storm insurance premiums and tree trimming costs are not expected to continue, thereby preserving the Storm Reserve Fund. If an average of $1.2 million in storm restoration costs is withdrawn from the fund annually, the current balance is sufficient to cover approximately 25 years of these costs. Therefore, ORS does not recommend reinstating contributions to the Storm Reserve Fund at this point. The removal of this adjustment is reflected in ORS Audit witness Webster's Adjustment #19.

Q. DOES ORS HAVE A RECOMMENDATION IF SCE&G WERE TO INCUR SUBSTANTIAL STORM RESTORATION COSTS DUE TO A MAJOR STORM?

A. Yes. ORS recognizes that the Company could face substantial storm restoration costs if a storm, such as one similar to Hurricane Hugo, were to impact its service territory. If storm restoration costs exceeded the amount in the Storm Reserve Fund, ORS would consider recommending the implementation of a rate rider to collect storm restoration costs. Other states, such as Florida, successfully utilize a rate rider as a means to recover substantial storm restoration costs following major hurricanes.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO T&D INSURANCE PREMIUMS.

A. In the Company's Adjustment #28, SCE&G proposes increasing total O&M expenses by $3,058,167 for the Test Year to recognize a T&D insurance policy premium.

Q. PLEASE EXPLAIN THE T&D INSURANCE AND ITS PREMIUMS.

A. SCE&G was previously granted permission to withdraw T&D insurance premiums from the Storm Reserve Fund as a means of reducing the Company's exposure to storm damage to its T&D systems per Order Nos. 2007-680 and 2010-471.

The current T&D insurance policy's annual premium is $3,058,167 and the policy deductible is $100 million per storm with a maximum payout of $70 million per year regardless of how many storms affect SCE&G's service area in that year.

Q. DOES ORS HAVE A RECOMMENDATION AS TO THE INCLUSION OF THE T&D INSURANCE PREMIUM?

A. Yes. Due to the high deductible and limited payout, ORS does not recommend that ratepayers bear the cost of this T&D insurance policy. Therefore, ORS proposes removing the $3,058,167 adjustment from O&M expenses. ORS does not recommend that premiums continue to be drawn from the Storm Reserve Fund.

ORS's recommendation to eliminate the Company's Adjustment #28 for storm insurance premiums from base rates is also addressed by ORS Audit witness Coates and is reflected in ORS Audit witness Webster's Adjustment #20.

Q. PLEASE EXPLAIN ORS'S ADJUSTMENT RELATED TO TREE TRIMMING.

A. ORS Adjustment #28 proposes decreasing total Test Year O&M expenses by $795,938 for tree trimming and vegetation management ("tree trimming"). During the Test Year, the Company expended approximately $19.8 million for tree trimming but budgets approximately $19 million in expenses in 2013. ORS's adjustment lowers Test Year expenses to reflect budgeted tree trimming expenses in 2013. ORS's adjustment is reflected in ORS Audit witness Webster's Adjustment #28.

Q. IS THERE ANY INFORMATION WHICH YOU WOULD LIKE TO PROVIDE TO THE COMMISSION REGARDING SCE&G'S PILOT ELECTRIC WEATHER NORMALIZATION PROGRAM?

A. Yes. In Docket No. 2009-489-E, the Commission approved the proposal to implement a pilot Electric Weather Normalization ("eWNA") program. Subsequently, the Company has provided reports and updates to the Commission and ORS and made minor modifications approved by the Commission. ORS continues to monitor this program and ORS Witness Dawn Hipp's testimony addresses the number and nature of consumer complaints and inquiries filed with ORS related to SCE&G's eWNA program. Exhibit LCF-2 illustrates the number of customer complaints and inquiries, by month and in total, received by SCE&G. This exhibit also includes the monthly and total bill adjustment resulting from the eWNA.

Q. DO YOU HAVE ANY CLOSING COMMENTS REGARDING SCE&G'S EXPENSES?

A. Yes, I do. As stated in Docket No. 2009-489-E, ORS does not propose that this Commission set rates or expense levels on the basis of information filed by the various utilities in the FERC Form 1. However, a comparison between SCE&G and other utilities of the O&M expenses in FERC Form 1, that is, all expenses excluding fuel and production expenses, caused a heightened concern by ORS. In light of the expense comparisons, ORS has and will continue to monitor future filings and expense levels of SCE&G.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

SCE&G Storm Reserve Fund

From Inception (1996) to Current

Year	Beginning Balance	Collections	Storm Charges	Insurance Premiums	Tree Trimming	Ending Balance
1996	$ -	$ 4,204,754	$ -	$ -	$ -	$ 4,204,754
1997	4,204,754	4,646,041	-	-	-	8,850,795
1998	8,850,795	5,209,754	-	-	-	14,060,549
1999	14,060,549	5,117,003	(3,895,456)	-	-	15,282,096
2000	15,282,096	5,435,216	(152,213)	-	-	20,565,099
2001	20,565,099	5,063,141	-	-	-	25,628,240
2002	25,628,240	5,926,832	-	-	-	31,555,072
2003	31,555,072	5,762,007	-	-	-	37,317,079
2004	37,317,079	6,130,090	(10,920,633)	-	-	32,526,536
2005	32,526,536	6,245,516	(307,008)	-	-	38,465,044
2006	38,465,044	5,740,360	(89,851)	-	-	44,115,553
2007	44,115,553	6,227,763	-	(1,360,001)	-	48,983,315
2008	48,983,315	6,222,074	(2,542,236)	(2,801,197)	(1,953,239)	47,908,717
2009	47,908,717	6,393,908	-	(3,046,197)	(6,995,375)	44,261,053
2010	44,261,053	3,575,031	(153,322)	(2,911,350)	(6,461,763)	38,309,649
2011	38,309,649	-	(1,633,654)	(2,989,084)	(1,800,000)	31,886,911
YTD 7/31/2012	31,886,911	-	-	(1,783,931)	-	30,102,980
Total Since 1996		**$ 81,899,490**	**$ 19,694,373**	**$ 14,891,760**	**$ 17,210,377**	
Average Annual Storm Withdrawal *(1996-2011)*			**$ 1,230,898**			

Exhibit LCF-2

Customer Communcations to SCE&G Regarding eWNA

August 2010 - August 2012

Docket No. 2012-218-E

2010							
	Aug 2010	Sep 2010	Oct 2010	Nov 2010	Dec 2010		**2010 Total**
No. of Complaints	192	57	18	16	11		**294**
eWNA Bill Adjustment	($12,759,369)	($9,957,701)	($2,829,929)	$140,823	($5,154,923)		**($30,561,099)**

2011													
	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011	Nov 2011	Dec 2011	**2011 Total**
No. of Complaints	22	13	46	21	8	2	8	7	8	4	2	27	**168**
eWNA Bill Adjustment	($12,904,569)	($2,582,012)	$5,555,902	$140,629	($1,333,090)	($17,021,321)	($14,373,603)	($15,957,701)	($4,521,964)	($687,843)	$56,211	$5,111,351	**($58,518,010)**

2012									
	Jan 2012	Feb 2012	Mar 2012	Apr 2012	May 2012	Jun 2012	Jul 2012	Aug 2012	**2012 Total**
No. of Complaints	314	566	190	50	26	207	386	64	**1,803**
eWNA Bill Adjustment	$9,610,046	$9,254,878	$6,837,666	$4,041,998	($1,646,554)	$9,683,066	($1,683,466)	($1,273,576)	**$34,824,058**

eWNA Program - August 2010 - August 2012	
	TOTAL
No. of Complaints	**2,265**
eWNA Bill Adjustment	**($54,255,051)**